

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of November 16, 2016

APPROVAL OF THREE-YEAR FINANCIAL SUSTAINABILITY PLAN

EXECUTIVE SUMMARY

The California State Budget Act of 2016 calls upon the University to submit a financial sustainability plan, approved by the Board of Regents, that includes projections of revenue, expenditures, and enrollment, as well as projected goals for specified performance outcome measures, for the years 2017-18, 2018-19, and 2019-20, that is consistent with the availability of resources reflected in the multi-year framework endorsed by the Regents in May 2015 (“the framework”).

This item requests approval of the attached *University of California Three-Year Financial Sustainability Plan*.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend to the Regents that the *University of California Three-Year Financial Sustainability Plan* shown in Attachment 1 be approved, as requested in the California State Budget Act of 2016.

BACKGROUND

The Budget Act of 2016 includes language requesting UC and the California State University (CSU) each to develop a three-year financial sustainability plan. The plan submitted by UC is to assume available resources consistent with the multi-year framework endorsed by the Regents in May 2015. The plan submitted by CSU is to reflect revenue projections based upon assumptions provided by the Department of Finance.

Under the framework, State funding for the University would increase by four percent per year; the University would receive a one-time appropriation of \$170 million in 2017-18 to further address unfunded liabilities of the University of California Retirement Plan; and any tuition adjustment proposed by the University would be a rate generally pegged to economic indicators that reflect cost increases in the broader economy.

The language also requests UC to develop a three-year enrollment plan as well as three-year goals for various performance outcome measures. These measures include the following:

- graduation rates for freshmen, community college transfers, and low-income students;
- the number and proportion of undergraduate enrolled students who are community college transfers;
- the number and proportion of undergraduate enrolled students who are low-income;
- degree completions for freshmen, community college transfer, graduate, and low-income students;
- the percentage of undergraduates who have earned sufficient course credits by the end of their first year of enrollment to indicate they will complete a degree in four years; and
- the average number of course credits accumulated by students at the time they complete their degrees.

The requested performance measures also include information regarding the average costs of instruction and degree completion.

OVERVIEW OF THE UNIVERSITY'S PLAN

Financial sustainability at the University means having sufficient resources to maintain and enhance student access, affordability, and excellence. The multi-year plan framework endorsed by the Regents in May 2015 represented an integrated strategy to address all three goals, subject to certain funding constraints.

The framework provides no specific funding level for California resident enrollment growth. The framework does, however, call upon the University to explore strategies for increasing the number of students that it serves – for example, by reducing students' time-to-degree. If successful, such efforts should enable the University to serve more students over time. By themselves, however, they are unlikely to significantly expand access to UC for graduating classes of high school students and California Community College transfer students in the near term.

The Budget Act of 2016 includes a provision to allocate an additional \$18.5 million to the University, beginning in 2016-17, to support enrollment growth of 2,500 California undergraduates by 2017-18 compared to 2016-17 levels. The funding is contingent upon the University demonstrating by May 2017 that it will likely meet that target for 2017-18 and adopting a policy on nonresident enrollment.

This provisional funding for enrollment growth follows an increase of \$25 million in State support provided in the Budget Act of 2015 to support enrollment growth of 5,000 California resident undergraduates in 2016-17 compared to 2014-15 levels.

Funding for enrollment growth provided in the Budget Acts of 2015 and 2016 signals a renewed effort by the State to enhance access to the University for California for resident undergraduate students. The funding, together with other University resources, enables UC campuses to hire faculty members, to expand academic support services, and to provide other critical services associated with enrolling 7,500 more California resident students in 2017-18 compared to 2014-15 levels.

The enrollment growth funding provided in both Budget Acts differs from enrollment growth provisions in prior Budget Acts in significant ways.

- On a per-student basis, State support for enrollment growth provided in both Budget Acts is below the level provided in 2007-08 and 2010-11, the last two years in which the State provided funding for enrollment growth. On a per-student basis, the Budget Acts of 2015 and 2016 provide funding of \$5,000 and \$7,400, respectively. In contrast, the Budget Act of 2007 funded 5,000 additional students based on a marginal General Fund cost of \$10,586, and the Budget Act of 2010 funded enrollment of 5,121 students at the rate of \$10,011 per student.
- The Budget Acts of 2015 and 2016 fund enrollment growth for California resident undergraduate students only. In contrast, the Budget Acts of 2007 and 2010 (as well as prior years) funded enrollment growth of all State-supported students, including graduate students.

Taken together, these characteristics of the Budget Acts of 2015 and 2016 have implications for the University's financial sustainability plan.

- The University's plan addresses the need for additional resources – including both cost-savings efforts and revenues – beyond the increase in State General Fund support reflected in the multi-year framework in order to sustain and enhance access, affordability, and excellence.
- The plan acknowledges the need for UC to enroll additional graduate students, whose contribution to the University's three-part mission of instruction, research, and public service cannot be understated. Graduate students support undergraduate education by serving as teaching assistants, role models, and mentors for undergraduate students. Graduate students are also essential to the University's research enterprise and contribute directly to the University's ability to recruit and retain highly talented faculty members in an extremely competitive and global market. Graduate students also acquire the education and experience necessary to make outstanding contributions to California, the nation, and the world as both cutting-edge researchers and highly skilled professionals.

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The University has developed a three-year financial sustainability plan that incorporates the funding and expected 2017-18 California undergraduate enrollment growth reflected in the Budget Act of 2016; includes continued efforts to maximize operational efficiencies and to control costs; sustains access, affordability, and excellence; and includes modest growth in graduate student enrollment, consistent with UC's role as the primary research enterprise for California and recognizing the essential contributions that graduate students make to undergraduate education.

The University's plan is attached.

(Attachment)